

AD ASTRA ROCKET COMPANY AND SUBSIDIARIES

**CONSOLIDATED FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT
For the Years Ended December 31, 2022 and 2021**

AD ASTRA ROCKET COMPANY AND SUBSIDIARIES

I. TABLE OF CONTENTS

I. Table of Contents.....	2
II. Independent Auditor's Report	3
III. Consolidated Balance Sheets As of December 31, 2022 and 2021	5
IV. Consolidated Statements of Operations For the Years Ended December 31, 2022 and 2021	6
V. Consolidated Statements of Changes in Stockholders' Deficit For the Years Ended December 31, 2022 and 2021	7
VI. Consolidated Statements of Cash Flows For the Years Ended December 31, 2022 and 2021	8
VII. Notes to Consolidated Financial Statements	9-23
1. Organization and Nature of Operations	9
2. Summary of Significant Accounting Policies	9
2.1 Basis of Accounting.....	9
2.2 Use of Estimates	9
2.3 Basis of Consolidation.....	9
2.4 Cash and Cash Equivalents.....	9
2.5 Accounts Receivable and Allowance for Doubtful Accounts	9
2.6 Property and Equipment	9
2.7 Impairment of Long-Lived Assets.....	10
2.8 Income Taxes.....	10
2.9 Stock-Based Compensation.....	10
2.10 Revenue and Cost Recognition	11
2.10.1 Research, Design and Development Income.....	11
2.10.2 Research, Design and Development Expenses.....	11
2.11 Fair Value of Financial Instruments.....	11
2.12 Concentrations of Credit Risk.....	12
2.13 Loss per Share.....	12
2.14 Leases	12
3. Going Concern.....	13
4. Accounts Receivable	13
5. Other Assets	14
6. Property and Equipment	14
7. Accrued Liabilities.....	15
8. Notes Payable and Long-Term Debt.....	15
9. SAFE Agreement.....	16
10. Stock Incentive Plan	16
11. Milestone Revenue Contracts.....	17
12. Related Party Transactions.....	19
13. Income Taxes	19
14. Stockholders' Deficit	20
14.1 Common Stock.....	20
14.2 Preferred Stock.....	20
14.3 Series A Preferred Stock.....	20
14.4 Series C Preferred Stock	21
14.5 Series D Preferred Stock	22
14.6 Series E Preferred Stock.....	22
15. Leases	22
16. Contingencies.....	23
17. Joint Venture.....	23
18. Subsequent Events.....	23

II. INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders of
Ad Astra Rocket Company and Subsidiaries:

Opinion

We have audited the consolidated financial statements of Ad Astra Rocket Company and Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, the related consolidated statements of operations, changes in stockholders' deficit, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the "financial statements").

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("U.S. GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Substantial Doubt About the Company's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 3 to the financial statements, the Company has suffered recurring losses from operations, has a net stockholder's deficit, and has stated that substantial doubt exists about the company's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 3. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with U.S. GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

II. INDEPENDENT AUDITOR'S REPORT, CONTINUED

In performing an audit in accordance with U.S. GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Han Lapsta & Begine LLP

Houston, Texas
March 10, 2023

AD ASTRA ROCKET COMPANY AND SUBSIDIARIES

III. CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2022 AND 2021

ASSETS	2022	2021
Current assets:		
Cash and cash equivalents	\$ 329,228	\$ 104,759
Accounts receivable	16,468	100,000
Prepaid expenses	<u>14,930</u>	<u>23,673</u>
Total current assets	<u>360,626</u>	<u>228,432</u>
Property and equipment, net	1,475,838	1,397,113
Right of use asset, operating lease	733,520	924,871
Other assets, net	<u>12,976</u>	<u>12,978</u>
Total assets	<u>\$ 2,582,960</u>	<u>\$ 2,563,394</u>
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	\$ 1,255,655	\$ 834,169
Accrued liabilities	220,126	208,299
Interest payable	241,014	221,040
Interest payable to related party	2,267	-
Lease liability, current portion	178,576	178,576
Notes payable, current portion	478,028	634,819
Notes payable, related party	<u>2,048,275</u>	<u>707,275</u>
Total current liabilities	<u>4,423,941</u>	<u>2,784,178</u>
Lease liability, net of current portion	613,372	791,947
Notes payable, net of current portion	<u>884,337</u>	<u>799,313</u>
Total liabilities	<u>5,921,650</u>	<u>4,375,438</u>
Commitments and contingencies		
Stockholders' deficit:		
Preferred stock:		
Series A, \$0.01 par value, 2,200 shares authorized;		
369 shares issued and outstanding	4	4
Series C, \$0.01 par value, 1,000 shares authorized;		
26 shares issued and outstanding	-	-
Series D, \$0.01 par value, 4,000 shares authorized;		
3,736 shares issued and outstanding	37	37
Series E, \$0.01 par value, 5,250 shares authorized;		
4,345 shares issued and outstanding	43	38
Common stock, \$0.01 par value, 75,000,000 shares authorized;		
21,021,963 shares issued and outstanding	210,221	210,221
Additional paid-in capital	42,035,765	40,677,497
Accumulated deficit	<u>(45,584,760)</u>	<u>(42,699,841)</u>
Total stockholders' deficit	<u>(3,338,690)</u>	<u>(1,812,044)</u>
Total liabilities and stockholders' deficit	<u>\$ 2,582,960</u>	<u>\$ 2,563,394</u>

The accompanying notes are an integral part of these consolidated financial statements.

AD ASTRA ROCKET COMPANY AND SUBSIDIARIES
IV. CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
Research and development income	\$ 154,183	\$ 522,987
Operating expenses:		
Payroll expense	1,162,556	1,188,899
Professional fees	425,366	365,382
Other general and administrative expenses	<u>1,715,657</u>	<u>1,496,359</u>
Total operating expenses	3,303,579	3,050,640
Other income (expense):		
Interest expense	(78,377)	(90,186)
Forgiveness of related party debt	-	838,478
Forgiveness of PPP loans	-	388,237
Other income, net	<u>342,854</u>	<u>241,279</u>
Total other income (expense), net	<u>264,477</u>	<u>1,377,808</u>
Net loss before provision for income taxes	(2,884,919)	(1,149,845)
Provision for income taxes	<u>-</u>	<u>-</u>
Net loss	<u>\$ (2,884,919)</u>	<u>\$ (1,149,845)</u>
Basic and diluted loss per share	<u>\$ (0.14)</u>	<u>\$ (0.05)</u>
Basic and diluted weighted-average common shares outstanding	<u>21,012,963</u>	<u>21,021,963</u>

The accompanying notes are an integral part of these consolidated financial statements.

AD ASTRA ROCKET COMPANY AND SUBSIDIARIES
V. CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	Preferred Stock								Common Stock		Additional Paid-In Capital	Accumulated Deficit During Development Stage	Total Stockholders' Equity
	Series A		Series C		Series D		Series E						
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount			
Balance at December 31, 2020	369	\$ 4	26	\$ -	3,736	\$ 37	1,124	\$ 11	21,021,963	\$ 210,221	\$ 38,091,570	\$ (41,549,996)	\$ (3,248,153)
Preferred Stock Series E issued for cash	-	-	-	-	-	-	2,626	27	-	-	2,100,773	-	2,100,800
Stock-based compensation	-	-	-	-	-	-	-	-	-	-	485,154	-	485,154
Net loss	-	-	-	-	-	-	-	-	-	-	-	(1,149,845)	(1,149,845)
Balance at December 31, 2021	369	\$ 4	26	\$ -	3,736	\$ 37	3,750	\$ 38	21,021,963	\$ 210,221	\$ 40,677,497	\$ (42,699,841)	\$ (1,812,044)
Preferred Stock Series E issued for cash	-	-	-	-	-	-	845	8	-	-	675,992	-	676,000
Preferred stock returned	-	-	-	-	-	-	(250)	(3)	-	-	(199,997)	-	(200,000)
Stock-based compensation	-	-	-	-	-	-	-	-	-	-	882,273	-	882,273
Net loss	-	-	-	-	-	-	-	-	-	-	-	(2,884,919)	(2,884,919)
Balance at December 31, 2022	369	\$ 4	26	\$ -	3,736	\$ 37	4,345	\$ 43	21,021,963	\$ 210,221	\$ 42,035,765	\$ (45,584,760)	\$ (3,338,690)

The accompanying notes are an integral part of these consolidated financial statements.

AS ASTRA ROCKET COMPANY AND SUBSIDIARIES
VI. CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Net loss	\$ (2,884,919)	\$ (1,149,845)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization expense	111,275	108,492
Right of use asset amortization – operating lease	191,351	191,353
Stock based compensation	882,273	485,154
Bad debt expense	-	25,000
Gain on forgiveness of PPP loans	-	(388,237)
Gain on forgiveness of related party debt	-	(838,478)
Gain on equipment contribution	(190,000)	-
Changes in operating assets and liabilities:		
Accounts receivable	83,532	(79,661)
Prepaid expenses	8,743	(14,199)
Accounts payable and accrued liabilities	433,313	(317,498)
Interest payable	20,048	13,777
Interest payable, related party	<u>2,267</u>	<u>-</u>
Net cash used in operating activities	<u>(1,342,117)</u>	<u>(1,964,142)</u>
Cash flows from investing activities:		
Purchases of property and equipment	<u>-</u>	<u>(23,166)</u>
Net cash used in investing activities	<u>-</u>	<u>(23,166)</u>
Cash flows from financing activities:		
Proceeds from notes payable	890,000	165,688
Payments on notes payable	(961,839)	(133,708)
Proceeds from notes payable, related party	1,341,000	90,000
Payments on notes payable, related party	-	(73,887)
Payments on lease obligation	(178,575)	(145,860)
Proceeds from issuance of preferred stock	676,000	2,100,800
Payments on called share of preferred stock	<u>(200,000)</u>	<u>-</u>
Net cash provided by financing activities	<u>1,566,586</u>	<u>2,003,033</u>
Increase in cash and cash equivalents	224,469	15,725
Cash and cash equivalents, beginning of year	<u>104,759</u>	<u>89,034</u>
Cash and cash equivalents, end of year	<u>\$ 329,228</u>	<u>\$ 104,759</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 78,377</u>	<u>\$ 90,186</u>
Non-cash investing and financing activities:		
Right of use asset and lease liabilities acquired	<u>\$ -</u>	<u>\$1,116,225</u>

The accompanying notes are an integral part of these consolidated financial statements.

AD ASTRA ROCKET COMPANY AND SUBSIDIARIES

VII. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Nature of Operations

Ad Astra Rocket Company and Subsidiaries (the "Company" or "AARC") was incorporated on January 14, 2005 and officially organized on July 15, 2005 in Houston, Texas. The Company engages in research and development of technology and manufactures prototypes and turn-key products and technological solutions for its customers based on its research and development, including work on advanced plasma technology, the Variable Specific Impulse Magnetoplasma Rocket ("VASIMR[®]") and green hydrogen storage systems primarily for transportation.

2. Summary of Significant Accounting Policies

2.1 Basis of Accounting

The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") under the accrual basis of accounting.

2.2 Use of Estimates

Management uses estimates and assumptions in preparing the consolidated financial statements. Those estimates and assumptions affect the reported amounts of certain assets and liabilities. These estimates also impact disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the related reported revenues and expenses during the reporting period. Actual results could differ from those estimates. Management believes its estimates are reasonable.

2.3 Basis of Consolidation

The consolidated financial statements include the accounts of the Company's direct, wholly-owned subsidiaries: Ad Astra Rocket Company (Costa Rica) S.R.L. incorporated in Costa Rica, and Ad Astra Servicios Energeticos Y Ambientales, Inc. a Delaware corporation. The consolidated financial statements also include the accounts of the Company's indirect, wholly owned subsidiary Ad Astra Servicios Energeticos y Ambientales ASEA, S.R.L., a Costa Rican corporation which is a direct, wholly-owned subsidiary of Ad Astra Servicios Energéticos Y Ambientales, Inc. All significant intercompany accounts and transactions have been eliminated upon consolidation.

The financial position, results of operations and cash flows of the Company's foreign subsidiary are determined using the United States Dollar as the functional currency.

2.4 Cash and Cash Equivalents

For purposes of reporting cash flows, the Company considers all short-term investments with an original maturity of three months or less to be cash equivalents.

2.5 Accounts Receivable and Allowance for Doubtful Accounts

The Company provides services to entities located primarily in the United States and Costa Rica. The Company grants credit only after an evaluation of financial condition. The allowance for doubtful accounts reflects management's best estimate of probable losses inherent in the accounts receivable balance. The Company determines the allowance based on known troubled accounts, historical experience, and other currently available evidence. At December 31, 2022 and 2021, there was no allowance as management believes all accounts are collectible. During the years ended December 31, 2022 and 2021, \$0 and \$25,000, respectively, of bad debt expense was recognized in the Company's consolidated statement of operations.

2.6 Property and Equipment

Property and equipment are stated at cost. Depreciation of property and equipment is provided using the straight-line method for financial reporting purposes based on the estimated useful lives of the assets as follows:

	<u>Years</u>
Computers and software	3
Laboratory equipment	5
Machine shop equipment	5
Renewable Energy equipment	10
Building	15

AD ASTRA ROCKET COMPANY AND SUBSIDIARIES

VII. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

2.6 Property and Equipment, continued

Leasehold improvements are amortized on a straight-line basis based on the shorter of the corresponding lease term or useful life. Expenditures for major renewals and improvements that extend the useful lives of the property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. The cost and accumulated depreciation of assets sold or otherwise disposed of are removed from the accounts and any resulting gain or loss is reflected in the statement of operations.

2.7 Impairment of Long-Lived Assets

If facts and circumstances indicate that the carrying value of a long-lived asset, including intangible assets, may be impaired, an evaluation of recoverability is performed by comparing the estimated future undiscounted cash flows associated with the asset or the asset's estimated fair value to the asset's carrying amount to determine if a write-down to market value or discounted cash flow is required. During the years ended December 31, 2022 and 2021, the Company did not record any impairment expense related to long-lived assets.

2.8 Income Taxes

The Company uses the liability method of accounting for income taxes. Under this method, deferred income taxes are recorded to reflect the tax consequences on future years of temporary differences between the tax basis of assets and liabilities and their financial reporting amounts at the end of the reporting period. The Company provides a valuation allowance to reduce deferred tax assets to their net realizable value.

The Company uses Accounting Standards Codification ("ASC") Topic 740-10, *"Accounting for Uncertainty in Income Taxes,"* which creates a single model to address uncertain income tax positions and prescribes the minimum recognition threshold a tax position is required to meet for recognition in the financial statements.

The Company did not recognize any interest or penalties related to any unrecognized tax position during the years ended December 31, 2022 and 2021.

The Company files a consolidated federal income tax return in the United States and state tax returns in the jurisdictions in which it operates.

2.9 Stock-Based Compensation

The Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 718-10, *"Accounting for Stock-Based Compensation,"* requires companies to estimate the fair value of stock based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's consolidated statement of operations.

Stock based compensation expense recognized under ASC Topic 718-10 was \$882,273 and \$485,154 for the years ended December 31, 2022 and 2021, respectively, which consists of stock-based compensation expense related to employee and director stock option issuances.

AD ASTRA ROCKET COMPANY AND SUBSIDIARIES

VII. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

2.10 Revenue and Cost Recognition

2.10.1 *Research, Design and Development Income*

Substantially all contracts of the Company are long-term contracts involving the design, engineering and execution of propulsion system technologies or hydrogen transport technologies. These long-term contracts include multiple distinct performance obligations which are segregated into milestone phases and are typically satisfied upon the successful inspection and acceptance of the reported results by the customer. At the inception of an arrangement that includes milestone payments, the Company evaluates whether each milestone is substantive and the risk to both parties on the basis of the contingent nature of the milestone (an output method.) This evaluation includes an assessment of whether: (i) the consideration is commensurate with the Company's performance to achieve the milestone, (ii) the consideration relates solely to past performance, and (iii) the consideration is reasonable relative to all of the deliverables and payment terms within the arrangement. The Company evaluates factors such as the scientific, regulatory, commercial and other risks that must be overcome to achieve the respective milestone and the level of effort and investment required to achieve the respective milestone in making the assessment. There is considerable judgement involved in determining whether the milestone satisfies all of the criteria required to conclude that a milestone is substantive. Revenue from these milestone contracts will be recognized at the point in time when the Company successfully accomplishes the milestone which is the satisfaction of the contracts performance obligation. During the years ended December 31, 2022 and 2021, the Company was party to various milestone revenue contracts as discussed in Note 11 of these financial statements, and recorded \$99,942 and \$413,326, respectively.

Revenue from services provided are recognized when there is evidence of a contract and associated contract value, each respective performance obligation is determined, contract values are allocated to each respective performance obligation and recorded as the performance obligation is satisfied.

Income from time-and-materials research, design and development contracts is recognized over time as the service is provided and are generally billed on a monthly basis. During the years ended December 31, 2022 and 2021, the Company recorded \$54,241 and \$109,661, respectively, of revenue for time-and material research, design and development contracts.

Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies and other overhead type costs. Operating costs are charged to operations as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions and estimated profitability may result in revisions to costs and revenue and are recognized in the period in which the revisions are determined.

At December 31, 2022 and 2021, the Company recorded a total of point in time and over-time revenue of \$154,183 and \$522,987, respectively.

2.10.2 *Research, Design and Development Expenses*

Research and development projects and costs are expensed as incurred. These costs consist of direct costs associated with the design of new products. Research and development expenses incurred during the years ended December 31, 2022 and 2021 were \$530,014 and \$442,580, respectively, and were included as a component of other general and administrative expenses in the consolidated statements of operations.

2.11 Fair Value of Financial Instruments

Fair value estimates of financial instruments are based on relevant market information and may be subjective in nature and involve uncertainties and matters of significant judgment. The Company believes that the carrying value of its assets and liabilities approximates the fair value of such items. The Company does not hold or issue financial instruments for trading purposes.

The Company adheres to ASC 820 and includes fair value information in the notes to its consolidated financial statements when the fair value of its financial instruments is different from the book value. When the book value approximates fair value, no additional disclosure is made.

AD ASTRA ROCKET COMPANY AND SUBSIDIARIES

VII. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

2.12 Concentrations of Credit Risk

The Company maintains its cash in financial institutions selected by management based upon their assessment of the financial stability of the institution. Balances periodically exceed the federal depository insurance limit; however, the Company has not experienced any losses on deposits.

2.13 Loss Per Share

Basic loss per share is calculated based on the weighted average number of common shares outstanding during each period. Diluted loss per share considers shares issuable upon exercise of outstanding vested stock options or convertible preferred stock. At December 31, 2022 and 2021, stock options and convertible preferred stock with equivalent shares of common stock, as presented in the table below, have been excluded from the computation of diluted earnings per share because the Company is in a net loss position and their effect would be anti-dilutive.

	<u>Common Stock Equivalents</u>	
	<u>2022</u>	<u>2021</u>
Stock options	1,136,937	196,000
Preferred stock options - Series A	1,107,000	1,107,000
Preferred stock options - Series C	78,000	78,000
Preferred stock options - Series D	373,600	373,600
Preferred stock options - Series E	<u>434,500</u>	<u>375,000</u>
Total	<u>3,130,037</u>	<u>2,129,600</u>

2.14 Leases

The Company early adopted the new standard on January 1, 2021 and applied it to (i) all new leases entered into after January 1, 2021 and (ii) the Company's existing lease contracts as of January 1, 2021. ASC 842 supersedes existing lease accounting guidance found under ASC 840, Leases.

The new standard introduces two lessee accounting models, which result in a lease being classified as either a "finance" or "operating" lease based on whether the lessee effectively obtains control of the underlying asset during the lease term. A lease would be classified as a finance lease if it meets one of five classification criteria, four of which are generally consistent with ASC 840 lease accounting guidance. By default, a lease that does not meet the criteria to be classified as a finance lease will be deemed an operating lease. Regardless of classification, the initial measurement of both lease types will result in the consolidated balance sheet recognition of a right-of-use ("ROU") asset (representing a company's right to use the underlying asset for a specified period of time) and a corresponding lease liability. The lease liability will be recognized at the present value of the future lease payments, and the ROU asset will equal the lease liability adjusted for any prepaid rent, lease incentives provided by the lessor, and any indirect costs.

The subsequent measurement of each type of lease varies. For finance leases, a lessee will amortize the ROU asset (generally on a straight-line basis in a manner similar to depreciation) and accrete the lease liability (as a component of interest expense) using the effective interest method. Operating leases will result in the recognition of a single lease expense amount that is recorded on a straight-line basis.

ASC 842 resulted in changes to the way the Company's operating leases are recorded, presented and disclosed in its financial statements. Upon adoption of ASC 842 on January 1, 2021, the Company recognized a ROU asset and a corresponding lease liability based on the present value of then existing long-term operating lease obligations.

AD ASTRA ROCKET COMPANY AND SUBSIDIARIES

VII. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

2.14 Leases, continued

In addition, the Company elected to apply several practical expedients and made accounting policy elections upon adoption of ASC 842 including:

- The Company does not recognize ROU assets and lease liabilities for short-term leases and instead records them in a manner similar to operating leases under legacy lease accounting guidelines. A short-term lease is one with a maximum lease term of 12 months or less and does not include a purchase option the lessee is reasonably certain to exercise.
- The impact of adopting ASC 842 was adopted prospectively beginning January 1, 2021. The Company did not restate prior periods presented in its financial statements to reflect the new lease accounting guidance.
- The Company does not reassess whether any expired or exiting contracts contains leases, the classification of the leases, and any initial direct costs.

Operating lease meeting certain criteria is capitalized and the present value of the related lease payment is recorded as a liability. Amortization of ROU assets is computed on the straight-line method over the term of the respective lease.

3. Going Concern

Historically, the Company has not generated significant revenue from core operations and, accordingly, it has experienced historical net losses, a stockholders' deficit, negative cash flows from operating activities, and negative working capital. During the years ended December 31, 2022 and 2021, the Company had net losses of \$2,884,919 and \$1,149,845, respectively. The Company has a working capital deficiency of \$4,063,315 and \$2,555,746 and, at December 31, 2022, and 2021, respectively. The Company has financed its operations using sales of its common stock and preferred stock, the issuance of convertible debentures to a related party, and other traditional debt financing. These factors raise a substantial doubt about the Company's ability to continue as a going concern.

The Company has received contracts from government entities and others that contribute to the Company's strategic initiatives, as described in the Revenue and Cost Recognition section of Note 2 Summary of Significant Accounting Policies of this report. These have resulted in sources of income from research, design and development contracts related to technologies derived from the VASMIR. In addition the Company through its VASMIR® research has gained significant experience in hydrogen transport systems, which the Company plans to continue marketing to various customers. For the years ended December 31, 2022 and 2021, the Company recorded research, design and development income on the statements of operations of \$154,183 and \$522,987, respectively, related to hydrogen transport systems or other complimentary technologies.

While the VASMIR® rocket is not commercially viable in its current form, the Company expects to continue to be able to source additional research, design and development projects and income from these entities in the upcoming year or additional projects using the Company's knowledge of hydrogen transport systems.

Management's primary focus is raising the funds necessary to fully implement the Company's business plan. The Company's long-term viability depends on its ability to expand its research, design and development service offerings and obtain adequate equity or debt funding to meet current commitments and fund the continuation of its business operations.

4. Accounts Receivable

Accounts receivable at December 31, 2022 and 2021 were \$16,468 and \$100,000, respectively, and relate to various research, design and development project contracts and revenue from speaking and consulting engagements.

AD ASTRA ROCKET COMPANY AND SUBSIDIARIES

VII. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Other Assets, net

Other assets comprise the following at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Deposits	\$ 12,976	\$ 12,978
Total	<u>\$ 12,976</u>	<u>\$ 12,978</u>

6. Property and Equipment

Property and equipment at December 31, 2022 and 2021, and related activity for the years then ended, were as follows:

<u>December 31, 2022</u>				
<u>Description</u>	<u>2021</u>	<u>Additions/ Transfers in</u>	<u>Retirements/ Transfers out</u>	<u>2022</u>
Computer and software	\$ 671,853	\$ -	\$ -	\$ 671,853
Laboratory equipment	4,143,710	-	-	4,143,710
Machine shop equipment	102,396	-	-	102,396
Leasehold improvements	1,594,129	-	-	1,594,129
Renewable energy equipment	611,898	190,000	-	801,898
Land and building	1,000,000	-	-	1,000,000
Other	<u>145,228</u>	<u>-</u>	<u>-</u>	<u>145,228</u>
	8,269,214			8,459,214
Less accumulated depreciation	<u>(6,872,101)</u>	<u>(111,275)</u>	<u>-</u>	<u>(6,983,376)</u>
Net property and equipment	<u>\$ 1,397,113</u>	<u>\$ 78,725</u>	<u>\$ -</u>	<u>\$ 1,475,838</u>

<u>December 31, 2021</u>				
<u>Description</u>	<u>2020</u>	<u>Additions/ Transfers in</u>	<u>Retirements/ Transfers out</u>	<u>2021</u>
Computer and software	\$ 671,853	\$ -	\$ -	\$ 671,853
Laboratory equipment	4,143,710	-	-	4,143,710
Machine shop equipment	102,396	-	-	102,396
Leasehold improvements	1,570,963	23,166	-	1,594,129
Renewable energy equipment	611,898	-	-	611,898
Land and building	1,000,000	-	-	1,000,000
Other	<u>145,228</u>	<u>-</u>	<u>-</u>	<u>145,228</u>
	8,246,048			8,269,214
Less accumulated depreciation	<u>(6,779,999)</u>	<u>(92,102)</u>	<u>-</u>	<u>(6,872,101)</u>
Net property and equipment	<u>\$ 1,466,049</u>	<u>\$ (68,936)</u>	<u>\$ -</u>	<u>\$ 1,397,113</u>

Depreciation and amortization expense of \$111,275 and \$92,102 was recognized during the years ended December 31, 2022 and 2021, respectively.

AD ASTRA ROCKET COMPANY AND SUBSIDIARIES

VII. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Accrued Liabilities

Accrued liabilities comprise the following at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Deferred salaries	\$ 28,849	\$ 28,849
Other wages payable	1,652	6,146
Payroll taxes and benefits	39,625	23,304
Legal contingency	<u>150,000</u>	<u>150,000</u>
	<u>\$ 220,126</u>	<u>\$ 208,299</u>

8. Notes Payable and Long-Term Debt

The Company had the following notes payable and notes payable, related party at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Demand notes payable to an officer of the Company. The notes bear interest annually ranging from 0.22% to 3.25%, is uncollateralized and the principal balance is due on demand.	\$ 1,948,275	\$ 707,275
Demand notes payable to a director of the Company. The note bears no interest, is uncollateralized and the principal balance is due on demand.	50,000	-
SAFE agreement entered into on May 27, 2022 when cash from an officer of the Company was received for future shares at a discount of 15% and classified as a financial instrument. See Note 9.	50,000	-
Note payable to a bank, bearing interest at a fixed rate of 3% per year and due in total monthly payments of \$2,236, including interest, through April 2022. This note was paid in full on July 29, 2022.	-	133,419
Note payable to a vendor, owned by a former member of the Company's board of directors, bearing interest at the current "prime" interest rate (7.5% at December 31, 2022), due December 31, 2023. Accrued interest on this note was \$241,014 and the note is uncollateralized.	408,000	408,000
Note payable to a solar panel equipment manufacturer, bearing interest at a fixed rate of 9.50% per year, with monthly principal and interest payments of \$2,588 due through April 2026. The loan is collateralized with the purchased equipment. The Company has the option to opt out of the purchase agreement with no penalties or fees if proper four-month notice is given to the equipment manufacturer. As of December 31, 2022 the Company does not anticipate opting out of the purchase agreement.	92,051	108,539
Note payable to a bank, bearing interest at a variable rate, currently 3.00% per year as of December 31, 2022, which can be adjusted quarterly, and due in total monthly payments of \$6,906, including interest, through May 2032. This note was paid in full on July 29, 2022.	-	776,156
Note payable to a bank, bearing interest at a variable rate, currently 3.00% per year as of December 31, 2022, which can be adjusted quarterly, and due in total monthly payments of \$6,165, including interest, through July 2037.	862,314	-

AD ASTRA ROCKET COMPANY AND SUBSIDIARIES

VII. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Notes Payable and Long-Term Debt, continued

Note payable to a bank, bearing interest at variable rate of 6% per year, due on December 1, 2022. This loan was a bridge loan to finance the Company's required Costa Rica's Holiday pay benefit. Loan was paid in full during 2022.

	-	8,017
	3,410,640	2,141,406
Less current maturities	<u>(2,526,303)</u>	<u>(1,342,094)</u>
Total long-term debt, net of current maturities	<u>\$ 884,337</u>	<u>\$ 799,312</u>

At December 31, 2022, future minimum principal payments remaining on notes payable and notes payable, related party, are as follows:

<u>Year</u>	
2023	2,526,303
2024	75,955
2025	80,042
2026	69,333
2027 and after	<u>659,007</u>
	<u>\$ 3,410,640</u>

The Company's weighted average interest rate on outstanding debt obligations, for the years ended December 31, 2022 and 2021 was 2.44% and 3.59%, respectively.

9. SAFE Agreement

On May 27, 2022, the Company entered into a SAFE agreement (Simple Agreement for Future Equity) totaling \$50,000 issued to an officer of the Company.

Conversion or cash-out events: In the event of an equity financing in which the Company issues and sells Preferred Stock for the purpose of raising capital and upon approval by the Company's Board of Directors, the SAFE will convert into a series of Preferred Stock of the Company. The SAFE will convert into a number of shares of preferred stock equal to the quotient obtained by dividing the principal amount of the SAFE by the applicable price per share at a discounted rate of 15%.

The SAFE holder will either receive cash or shares of the Company's common stock for its SAFE if a liquidity event were to occur before the expiration or termination of the SAFE. In the event of a dissolution, the SAFE holder will receive the purchase amount, due and payable immediately prior to, or concurrent with, the consummation of the dissolution event. The SAFE will terminate or expire upon either the issuance of capital stock to the investor, or payment of the amount due to the investor.

Preference upon dissolution: Should the Company dissolve or wind-up operations prior to a conversion or cash-out event, the SAFE holder will be paid back the purchase amount prior to the distribution of assets to Common Stock investors and concurrent with payments for other Convertible Securities and/or Preferred Stock.

10. Stock Incentive Plan

On September 9, 2016, the Company adopted the Ad Astra Rocket Company 2016 Stock Incentive Plan (the "Plan"). A total of 2,000,000 shares of common stock are reserved for issuance under the Plan. The purpose of the Plan is to promote continued service by certain key employees, non-employee members of the Board of Directors, consultants and other independent advisors, by providing the opportunity to acquire an interest in the Company. In 2021, stock options to acquire 3,000 shares for each active board member for each year were approved for members of the Board. During the years ended December 31, 2022 and 2021, the total stock options granted, including the approved shares for active board of directors, total 942,937 and 24,000, respectively.

AD ASTRA ROCKET COMPANY AND SUBSIDIARIES

VII. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Stock Incentive Plan, continued

During the years ended December 31, 2022 and 2021, the total stock options cancelled, total 2,000 and 0, respectively.

The following table summarizes certain information relative to stock options issued pursuant to the Plan:

	<u>2016 Stock Incentive Plan</u>	
	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding, December 31, 2020	42,000	\$ 8.00
Granted	154,000	\$ 8.00
Forfeited/cancelled	-	\$ 0.00
Outstanding, December 31, 2021	196,000	\$ 8.00
Granted	942,937	\$ 8.00
Forfeited/cancelled	(2,000)	\$ 0.00
Outstanding, December 31, 2022	<u>1,136,937</u>	<u>\$ 8.00</u>
Exercisable, December 31, 2022	<u>194,000</u>	<u>\$ 8.00</u>

The weighted-average remaining life and weighted-average fair value of outstanding options at December 31, 2022 were 9 years and \$4.22. At December 31, 2022, information relating to such options follows:

<u>Exercise Price</u>	<u>Stock Options Outstanding</u>	<u>Stock Options Exercisable</u>	<u>Weighted Average Remaining Contract Life</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Exercise Price of Options Exercisable</u>
\$8.00	<u>1,136,937</u>	<u>194,000</u>	9 years	\$8.0	\$8.0
	<u>1,136,937</u>	<u>194,000</u>			

During the years ended December 31, 2022 and 2021, the Company granted 942,937 and 24,000 stock options, respectively. The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option pricing model. The fair value of stock options expensed under the Plan was \$882,273 and \$485,154 for the years ended December 31, 2022 and 2021, respectively. For stock options granted in 2022 and 2021, the following assumptions were used:

	<u>2022</u>	<u>2021</u>
Dividend Yield	0%	0%
Expected Volatility	37%	26%
Weighted Average Risk-Free Interest Rates	4.3%	1.78%
Expected Life in Years	10	10

As of December 31, 2022, there was \$3,444,363 of unrecognized expense remaining related to non-vested stock based compensation arrangements.

11. Milestone Revenue Contracts

In August 2015, the Company received a multi-year contract from a U.S. government entity that contains milestone payments for the research, design and development of related technology for the VASIMR® engine. The contract was originally effective for the period from August 2015 to August 2018 and total \$9.06 million if all milestones were met. The Company received various no cost contract extensions to the contract, and was completed as of June 30, 2021.

AD ASTRA ROCKET COMPANY AND SUBSIDIARIES

VII. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Milestone Revenue Contracts, continued

While the VASIMR® engine is not commercially viable in its current form, as of December 31, 2021, the technologies already developed, coupled with those developed under the aforementioned contract, further the concept's function. The contract outlines a milestone schedule of 5 years resulting in contingent payments of \$368,000 to \$883,000 per achieved milestone. The milestone criteria require the Company to develop the VASIMR® technology to certain specifications progressing to a sustained test of the rocket's technology and provide scientific evidence of their completion in order to satisfy the terms of the milestone. The contract has been determined by the Company to be a milestone arrangement. The Company reviewed various factors, including the contingent nature of the payments for past performance metrics outlined in the arrangement and noted all appeared reasonable based on the estimated expenditures required to complete each milestone, concluding that the milestones are substantive. These projects have been recorded as research, design and development income upon the completion of the milestone criteria and receipt of payment on the statement of operations. During the years ended December 31, 2021 and 2020, the Company recorded \$297,236 and \$0, respectively, of revenue related to this project. As of December 31, 2021, no milestones payments remain under the contracts.

On October 18, 2021, the company received a contract for a consulting project with a U.S. Company that partners with NASA for \$100,000 in research, design and development related revenue. The contract has been determined by the Company to be a milestone arrangement. The Company reviewed various factors, including the contingent nature of the payments for past performance metrics outlined in the arrangement and noted all appeared reasonable based on the estimated expenditures required to complete each milestone, concluding that the milestones are substantive. As of December 31, 2021, all milestones have been met and \$100,000 was recorded as revenue and no contingent payments remain under the contract.

On February 12, 2021, the Company engaged with a Costa Rican company to perform the conceptual design of a renewable energy system for an educational campus in Costa Rica. The contract period is from February 12, 2021 to March 19, 2022, and revenue to be collected is \$13,000 should all milestones are met. The contract outlines a milestone schedule resulting in contingent payments of \$5,200 and \$7,800 per achieved milestone. The project contract has been amended and extended the deadline extended to May 15, 2022. The company reviewed various factors, including the contingent nature of the payments for past performance metrics outlined in the arrangement concluding that the milestones are substantive. These projects have been recorded as research, design, and development income upon the completion of the milestone criteria and receipt of payment on the statement of operations. As of December 31, 2021, \$7,800 was recorded in revenue and \$5,200 remains in contingent milestone payments under the contract.

The Company received a contract from a Costa Rican entity that contained milestone payments for consultancy services regarding the potential for development of green hydrogen and derivative green products in Costa Rica.. The contract was effective for the period from October 20, 2021 to November 29, 2021 and totaled \$12,816 if all milestones were met. The contract outlined a milestone schedule of 6 weeks resulting in contingent payments of \$5,526 to \$8,290 per achieved milestone. The milestone criteria required the Company to analyze the supply of renewable energy in Costa Rica, the availability of stationary CO2 emissions at industrial sites, and then write a report discussing the implications of these findings relative to the potential production of green hydrogen and derivative products. The contract was determined by the Company to be a milestone arrangement. The Company reviewed various factors, including the contingent nature of the payments for past performance metrics outlined in the arrangement and noted all appeared reasonable based on the estimated expenditures required to complete each milestone, concluding that the milestones are substantive. These projects have been recorded as research, design and development income upon the completion of the milestone criteria and receipt of payment on the statement of operations. As of December 31, 2021, \$8,290 was recorded as research and development income and \$5,526 remains in contingent milestone payments under the contract.

The Company has received a contract from a U.S. entity that contained milestone payments for the manufacturing and delivery of a steel structure for the support of a ground radar apparatus. The contract was effective for the period July 2, 2020 to November 29, 2020 and totaled \$562,655 if all milestones were met. On January 5, 2021, the project schedule was extended until the end of February 2021 and additional funds totaling up to \$250,000 were approved. The project extension was completed and the remaining approved project funds were invoiced by the Company in February 2021. The original contract outlined a milestone schedule of 4 months resulting in contingent payments of \$27,788 to \$117,997 per achieved milestone. The milestone criteria required the Company to procure the raw material required for manufacturing the structure, subcontract services to cut it into the required length, setting up a fabrication shop where these parts are welded, painting the structural elements with protective coatings and delivering them to the project site for installation. The contract was determined by the Company to be a milestone arrangement. The Company reviewed various factors, including the contingent nature of the payments for past performance metrics outlined in the arrangement and noted all appeared reasonable based on the estimated expenditures required to complete each milestone, concluding that the milestones are substantive.

AD ASTRA ROCKET COMPANY AND SUBSIDIARIES

VII. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. Milestone Revenue Contracts, continued

On July 25, 2022, the company entered into a contract with NASA to provide research and development services with a contract value of \$150,000 and a completion date January 25, 2023. The contract is divided into 3 phases has been determined by the Company to be a milestone arrangement. As of December 31, 2022, approximately \$50,000 remains in contingent milestone payments under the contract and \$100,000 has been recorded and recognized as revenue.

12. Related Party Transactions

During the years ended December 31, 2022 and 2021, the Company has two, uncollateralized, outstanding notes payable totaling \$1,948,275 and \$707,273, respectively, from an officer of the Company bearing interest ranging from 0.25% to 3% and due upon demand.

On June 17, 2022, the company acquired a note payable of \$50,000 to a director of the Company. The note payable bears no interest and is due on June 17, 2023.

On May 27, 2023, the Company entered into a SAFE agreement with an officer of the Company classified as a liability until the balance is converted to preferred shares or redeemed per the terms of the agreement. See Note 9.

13. Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax reporting purposes. For the years ended December 31, 2022 and 2021, there were no provisions for income taxes and deferred tax assets have been entirely offset by a valuation allowance, due to the Company's unlikely realization based on its recurring net losses.

Significant components of the Company's deferred tax assets and liabilities were as follows at December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Deferred tax assets (liabilities):		
Net operating loss carryforwards	\$ 7,558,687	\$ 7,078,627
Non-deductible accruals	(57,510)	(68,490)
Basis difference in property and equipment	<u>(286,503)</u>	<u>(245,865)</u>
Total deferred tax assets, net	<u>7,214,674</u>	<u>6,764,272</u>
Valuation allowance	<u>(7,214,674)</u>	<u>(6,764,272)</u>
Deferred tax assets, net	<u>\$ -</u>	<u>\$ -</u>

The difference between the income tax benefit in the accompanying statements of operations and the amount that would result if the U.S. federal statutory rate of 21% were applied to pre-tax losses for the years ended December 31, 2022 and 2021 is as follows:

	<u>2022</u>		<u>2021</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Benefit for income tax at				
federal statutory rate	\$ (605,833)	(21.0)%	\$ (241,467)	(21.0)%
Change in valuation allowance	811,709	28.1	162,789	14.1
Stock-based compensation	185,277	6.4	101,882	8.9
Tax accrual to return adjustments	<u>(93,257)</u>	<u>(3.2)</u>	<u>(23,204)</u>	<u>(2.0)</u>
	<u>\$ -</u>	<u>- %</u>	<u>\$ -</u>	<u>- %</u>

AD ASTRA ROCKET COMPANY AND SUBSIDIARIES

VII. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Income Taxes, continued

As of December 31, 2022, for U.S. federal income tax reporting purposes, the Company has approximately \$35,994,000 of unused net operating losses ("NOLs") available for carry forward to future years. The benefit from carry forward of such pre-2018 NOLs totaling approximately \$27,916,000 will expire at various dates through December 31, 2038. NOLs generated from 2018 to 2022 totaling approximately \$8,078,000 do not expire. Because tax laws limit the use of NOLs to future periods in which the Company generates taxable income, the Company may be unable to take full advantage of its NOLs for federal income tax purposes. Further, the benefit from utilization of NOL carry-forwards could be subject to limitations due to material ownership changes that may or may not occur in the Company.

14. Stockholders' Deficit

14.1 Common Stock

The Company's Certificate of Incorporation authorizes issuance of 75,000,000 shares of \$0.01 par value common stock ("Common Stock"). At both December 31, 2022 and 2021, the Company had 21,021,963 shares of Common Stock issued and outstanding. The Company may issue any authorized but unissued shares of Common Stock at prices and other terms as approved by the Company's Board of Directors.

The Company has not entered into any agreements with common stockholders that provide such stockholders with preferential economic rights not available to all holders of such class of Common Stock.

Holders of Common Stock are entitled to one vote for each share held and have no preemptive or similar right to subscribe for, or to purchase, any shares of Common Stock or other securities to be issued by the Company in the future. Holders of shares of Common Stock have no exchange or conversion rights and the shares are not subject to redemption.

The Company is authorized by the Superintendencia General de Valores de Costa Rica ("Sugeval") to undertake Restricted Public Offerings ("RPO") of its Common Stock. These offerings are conducted under Costa Rican law outside of the United States of America. The Company has approved the issuance of up to 1,000,000 shares of Common Stock pursuant to the RPO.

The Company did not sell any Common Stock during the years ended December 31, 2022 and 2021.

14.2 Preferred Stock

The Company's certificate of incorporation authorizes the issuance of 100,000 shares of \$0.01 par value preferred stock in one or any number of series. At December 31, 2022, and 2021, the Company authorized Series A, C, D and E Preferred Stock discussed below.

14.3 Series A Preferred Stock

At December 31, 2022 and 2021, the Company had 2,200 shares authorized and 369 shares issued and outstanding of \$0.01 par value Series A Preferred Stock ("Series A"). Series A has a liquidation preference equal to the original purchase price and does not pay a mandatory dividend. Series A is convertible into Common Stock any time at the option of the holder at a price determined by dividing the Series A original issue price by the Series A conversion price in effect at the time of conversion. The Series A conversion price is equal to the original issue price per share divided by 3,000.

The Company has the right to redeem Series A for cash at any time after the five-year anniversary date of the issuance at a redemption price calculated by multiplying the Series A original issue price by one plus the Prime Rate (as reported by Bloomberg, L.P.) on the date of redemption times the number of years from the applicable Series A original issue date until the date of such calculation with a partial year being expressed by dividing the number of days which have passed since the most recent anniversary by 365, plus all declared but unpaid dividends.

During the years ended December 31, 2022 and 2021, the Company did not issue any shares of Series A Preferred Stock.

At December 31, 2022 and 2021, there were no accumulated, undeclared dividends.

AD ASTRA ROCKET COMPANY AND SUBSIDIARIES

VII. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Stockholders' Deficit, continued

14.4 Series C Preferred Stock

At December 31, 2022 and 2021, the Company had 1,000 shares authorized and 26 issued and outstanding, of \$0.01 par value Series C Preferred Stock ("Series C"). Series C has a liquidation preference equal to the original purchase price and does not pay a mandatory dividend. The Series C is convertible by the holder into Common Stock within 15 days of notice of redemption from the Company at a price determined by dividing the Series C original issue price by the Series C conversion price in effect at the time of conversion.

The Series C conversion price is equal to the original issue price per share divided by 3,000. The Company has the right to redeem Series C for cash at any time after issuance with a twenty-day written notice at a redemption price equal to the original issue price, plus all declared but unpaid dividends. Series C stock become mandatorily convertible to common shares at a conversion rate of 3,000 common shares for each Series C share if the Company closes an underwritten public offering and sale of its Common Stock pursuant to an effective registration statement under the Securities Act of 1933, as amended.

During the years ended December 31, 2022 and 2021, the Company did not issue any shares of Series C Preferred Stock.

At December 31, 2022 and 2021, there were no accumulated and undeclared dividends.

14.5 Series D Preferred Stock

At December 31, 2022 and 2021, the Company had 4,000 shares authorized and 3,736 issued and outstanding of \$0.01 par value Series D Preferred Stock ("Series D"). Series D has a liquidation preference equal to the original purchase price and does not pay a mandatory dividend. The Series D is convertible by the holder into Common Stock at any time from the Company at a price determined by dividing the Series D original issue price by the Series D conversion price in effect at the time of conversion.

The Series D conversion price is equal to the original issue price per share divided by 100. Series D stock becomes mandatorily convertible to common shares at a conversion rate of 100 common shares for each Series D share if the Company closes an underwritten public offering and sale of its Common Stock pursuant to an effective registration statement under the Securities Act of 1933, as amended.

During the year ended December 31, 2022, the Company did not issue any Series D Preferred Stock.

On December 31, 2020, the Company sold 500 shares of Series D Preferred Stock pursuant to stock subscription agreements with individual investors at a price of \$800 per share resulting in cash proceeds of \$400,000.

At December 31, 2022 and 2021, there were no accumulated and undeclared dividends.

14.6 Series E Preferred Stock

On June 22, 2020, the Company's Board of Directors approved a Unanimous Written Consent resolution authorizing the creation of 2,964 shares of \$0.01 par value Series E Preferred Stock ("Series E"). Effective June 24, 2020, the Company registered with the State of Delaware the Certificate of Designations creating the Series E Preferred Stock. During 2021, the Company's Board of Directors approved and authorized an additional 2,286 of Series E Preferred Stock.

The Series E conversion price is equal to the original issue price per share divided by 100. Series E shares become mandatorily convertible to Common Stock at a conversion rate of 100 common shares for each Series E share if the Company closes an underwritten public offering and sale of its common stock pursuant to an effective registration statement under the Securities Act of 1933, as amended.

At December 31, 2022, the Company had 5,250 Series E shares authorized and 4,345 issued and outstanding. At December 31, 2021, the Company had 5,250 Series E shares authorized and 3,750 issued and outstanding. Series E has a liquidation preference equal to the original purchase price and does not pay a mandatory dividend. The Series E shares are convertible by the holder into Common Stock at any time from the Company at a price determined by dividing the Series E original issue price by the Series E conversion price in effect at the time of conversion.

AD ASTRA ROCKET COMPANY AND SUBSIDIARIES

VII. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Stockholders' Deficit, continued

14.6 Series E Preferred Stock

During the year ended December 31, 2022, the Company sold 220 shares of Series E Preferred Stock at \$800 per share for cash totaling \$176,000 in proceeds. The Company recorded no issuance costs related to this sale.

During the year ended December 31, 2022, the Company sold 625 shares of Series E Preferred Stock at \$800 per share for cash totaling \$500,000 in proceeds, to one stockholder. The Company recorded no issuance costs related to this sale. Additionally, during the year ending December 31, 2022, per an agreement with the stockholder, the Company canceled a portion of the initial sale for 250 shares of Series E Preferred Stock purchased for \$800 per share and returned \$200,000 to the stockholder.

During the year ended December 31, 2021, the Company sold 2,626 shares of Series E Preferred Stock at \$800 per share for cash totaling \$2,101,600 in proceeds. The Company recorded no issuance costs related to this sale.

15. Leases

Operating Lease

The following represents information regarding the operating lease where the Company is the lessee at December 31, 2022:

<u>Assets Category</u>	<u>ROU Assets Carrying Value</u>	<u>Lease Liabilities Carrying Value</u>	<u>Remaining Term</u>	<u>Weighted-Average Discount Rate</u>
Office space lease	\$ 733,519	\$ 791,947	3.8 years	1.78%

Total operating lease expense for years ended December 31, 2022 and 2021 is shown below:

	<u>2022</u>	<u>2021</u>
Long-term operating lease:		
Fixed lease expense:		
Non-cash lease expense (amortization of ROU assets)	\$ 191,353	\$ 191,353
Related accretion expense on lease liability balance	18,512	18,728
Total deferred tax assets, net	\$ 209,865	\$ 210,081

Cash paid for operating lease liabilities recorded on the consolidated balance sheet included \$178,575 and \$145,860 related to lease liability reductions and \$18,512 and \$18,728 related to the imputed interest recorded as lease expense for the years ended December 31, 2022 and 2021, respectively.

The future annual lease obligations at December 31, 2022 are as follows:

<u>Year Ending December 31,</u>	
2023	\$ 204,127
2024	227,684
2025	231,213
2026	<u>200,717</u>
Total undiscounted lease obligations	863,741
Less imputed interest	<u>(71,794)</u>
Net lease obligations	<u>\$ 791,947</u>

During the years ended December 31, 2022 and 2021, the Company did not record any short-term lease expense.

AD ASTRA ROCKET COMPANY AND SUBSIDIARIES

VII. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. Contingencies

From time to time, the Company may be involved in various claims and legal actions arising in the ordinary course of business. Management, along with the assistance of legal counsel, will determine the ultimate disposition and potential impact of these matters on the Company's financial condition, liquidity, or results from operations. As of December 31, 2022 and 2021 the Company is involved in a regulatory tax matter with the taxing authorities in Costa Rica. The taxing authorities have claimed the Company owed taxes and penalties related to ancillary income earned. As a result of this claim, the Company recorded a current liability of \$150,000 to cover the expected back taxes, penalties, and legal representation for the matter.

17. Joint Venture

On March 29, 2022, the Company's Costa Rican Subsidiary and Mesoamerica entered into a joint venture which created a newly formed entity ProNova Energy LLC, a Costa Rican business entity. On October 28, 2022, Cavendish S.A. signed Memorandum of Understanding to become part of the joint venture; each entity owns 33.33% of ProNova Energy. The joint venture will initially focus on developing green hydrogen solutions for various commercial and industrial applications. The joint venture will focus its development and sales primarily in the Latin American region. As of March 29, 2022, the only activity in ProNova Energy was the creation of the entity, and as of December 31, 2022, no financial, product development, or sales activity had occurred in the joint venture.

18. Subsequent Events

Management has evaluated subsequent events through March 10, 2023, which is the date the consolidated financial statements were available to be issued, and has determined that there were no significant subsequent events requiring additional disclosure in the notes to the consolidated financial statements other than those described below.